Executive Forum 2024: Spurring growth — energy M&A strategies and trends

Teaser Video Transcript

New Structures in Energy Project Finance

So on the structuring side, as I'm sure you're aware, the Inflation Reduction Act, it introduced the opportunity to transfer certain IRA credits to third parties and that created new avenues to monetize the credits as an alternative to traditional tax equity structures. So this has the project finance industry rapidly embracing new structures that are allowing for the transferability of the credits and that not only is bringing in new investors, but it's also allowing or lowering the cost of capital for these energy projects. But the transferability does have a number of drawbacks for the project owners and that includes first not being able to capture the full value of the credit since they're sold at a discount.

The second is not being able to get a step up in the tax basis to fair market value absent further structuring. And then a third is not being able to monetize the depreciation. Another big drawback is that cash can't be exchanged exchanging hands until the project is essentially complete. So that could span multiple years from when the project begins. So you have an issue of getting cash in hand. All of these drawbacks that's encouraged the emergence of hybrid structures that basically combine traditional partnership flip structures with a transfer that helps to address these drawbacks but also increasing the value to the stakeholders.

It's also which very importantly, it's facilitating the entry of tax credit buyers who can rely on due diligence and structuring that's been previously done by the tax equity investors.